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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 004291

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SUBJECT: KUWAIT FINANCE MINISTER URGES DISCRETION ON IRAQI DEBT RELIEF, SAYS KUWAITI PARLIAMENT IS OPPOSED

REF: A. 04 KUWAIT 3481

[¶](#)B. 04 KUWAIT 4081

[¶](#)C. 05 KUWAIT 651

[¶](#)D. 05 KUWAIT 669

Classified By: DCM Matt Tueller for reasons 1.4 (b) and (d).

[¶](#)1. (C) SUMMARY: On October 31, Treasury Deputy Secretary Kimmitt met with Kuwaiti Finance Minister Bader Al-Humaidhi to discuss the Iraq Compact, Iraqi debt relief, Lebanon's debt situation, oversight of Kuwaiti charities, and Kuwaiti investments in the United States. Kimmitt provided an update on the Iraq Compact, including the expectation of reaching a consensus on the final document by the end of 2006.

Al-Humaidhi reiterated Kuwait's support for Iraq's reconstruction but expressed disappointment that Kuwaiti aid money was not being utilized by the Iraqi government.

Al-Humaidhi warned against raising the issue of forgiving Iraqi debt, saying Kuwait's National Assembly, which must approve any relief measure, remains opposed. On Lebanon's fiscal situation, Al-Humaidhi stated his concern over Lebanon's debt obligations and said he hoped the January 2007 conference in Paris would produce more aid to relieve the debt burden.

[¶](#)2. (C) Kimmitt stated that the quality of Kuwait's banking regulatory system makes the movement of illicit funds through charities more likely, and urged particular scrutiny on cross-border transactions. Regarding Kuwaiti investments in the United States, Kimmitt said that the U.S. welcomes foreign investment and invited the Kuwait Investment Authority to discuss proposed investments with the Treasury Department. END SUMMARY

"How can we commit new funds when others aren't being used?"

[¶](#)3. (C) On October 31, Treasury Deputy Secretary Kimmitt, accompanied by DAS Ahmed Saeed and the DCM, met with Minister of Finance Bader Al-Humaidhi. Also attending the meeting was Executive Director of the Kuwait Investment Authority (KIA), Bader Al-Saad. Kimmitt briefed Al-Humaidhi on the status of the International Compact on Iraq (ICI) and the expected outcome of the ICI meeting on October 31. Kimmitt said the goal of the meeting will be to obtain final comments on the document from the Government of Iraq (GOI) and donor countries in preparation for a possible signing in December 2006. Al-Humaidhi reiterated Kuwait's support for Iraq's reconstruction but expressed disappointment that "not one dollar has been disbursed" of the Kuwaiti assistance commitment. Responding to Kimmitt's statement that Kuwait should look to pledge more aid, Al-Humaidhi asked, "How can we commit new funds when others aren't being used?" Kimmitt responded that one of the goals of the ICI is to address this problem. Al-Humaidhi acknowledged that security problems are

a "major factor" but noted the GOI's struggle to designate and approve projects. (Rather than correct Al-Humaidhi in front of his subordinates, Kimmitt asked Kuwait Fund DG Abdulwahab Ahmed Al-Bader in a subsequent meeting to inform both Al-Humaidhi and Deputy Prime Minister and Minister of Foreign Affairs Sheikh Muhammad Sabah Al-Salem Al-Sabah that \$75 million has been disbursed.)

Kuwaiti Parliament Opposition Makes Debt Relief a Tough Sell

¶ 4. (C) Kimmitt noted the importance of Iraqi debt relief, the deterrent effect high levels of debt can have on foreign investment, and the USG's commitment to 100% relief. Kimmitt stated that debt relief is one of the keys to achieving Iraqi economic self-sufficiency, and he urged Kuwait to meet at least the Paris Club goal of 80%. Al-Humaidhi advised against pursuing relief of Kuwaiti-held Iraqi debt at this time, noting that the Parliament is "not ready for such a thing" and that it would be "very difficult" to obtain parliamentary approval. (Refs A-D.) Al-Humaidhi related that he also advised the GOI delegation at a recent conference in Singapore against raising Kuwait-held debt.

¶ 5. (C) Kimmitt asked Al-Humaidhi if the Kuwaiti Parliament's position would change if an 80% consensus emerged within the GCC. Al-Humaidhi responded that a GCC consensus would mean little since the hard-line taken by Kuwait's Parliament was rooted in Kuwait's unique history with Iraq, each GCC nation has a different mechanism for making such decisions, and countries such as Saudi Arabia and the UAE do not have parliaments to contend with. The DCM said a strong GOK endorsement of debt relief could sway Kuwait's Parliament, but Al-Humaidhi disagreed, arguing that

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Parliament's position was backed by popular opinion. Al-Humaidhi said that the GOK has taken no official decision forgive Iraqi debt. Kimmitt reiterated how important it was to the USG to have Iraq's debt burden reduced.

Al-Humaidhi: Debt is Lebanon's Biggest Problem

¶ 6. (C) Kimmitt thanked Al-Humaidhi for Kuwait's assistance pledges to Lebanon but noted the challenges of enacting economic reform there. Al-Humaidhi agreed that reform is difficult in Lebanon, primarily due to ongoing political issues between the PM and President. He stated that Lebanon's debt burden is "more difficult than Iraq" and is "the biggest problem facing Lebanon" as interest payments constitute more than 50% of the GOL's budget. He said he anticipates the GOL will ask for help with its debt at the upcoming meeting in Paris in January 2007. Al-Humaidhi stated that Lebanon needs to engage in a program of economic reform and privatization but that he has concerns that the political situation will make this difficult. Saeed noted that Lebanon's debt is mostly domestic, not foreign, which complicates any restructuring. Kimmitt invited Al-Humaidhi's insight into Lebanon's situation ahead of the January meeting in Paris.

Charities a Source of Concern

¶ 7. (C) Kimmitt raised recent sanctions imposed against Iran and North Korea for money laundering activities, and emphasized that these sanctions are not politically motivated, but are aimed to curb the financing of terrorism, and of weapons proliferation, organized crime, and drug syndicates. Kimmitt said charities need to be watched carefully as they have been used as conduits for illicit funds, both in the Middle East and the United States. Al-Humaidhi responded that the Central Bank of Kuwait (CBK) is "one of the best in the region at dealing with money laundering." Kimmitt agreed that CBK has made progress, but

cautioned that the quality of Kuwait's banking system overnight means that the use of charities for illicit financing is even more likely, particularly for moving money across borders.

U.S. Welcomes Kuwaiti Investment

¶8. (SBU) Kimmitt said that after the recent controversies over the Dubai Ports World and CNOOC controversies there could be some concern on the part of foreign investors that the U.S. is raising barriers to investment, but these cases are not indicative of the investment environment. He acknowledged that extra scrutiny is given to deals involving state-owned foreign entities, but that all investment is encouraged and 98% of proposals are approved within 30 days. He urged the KIA to approach members of Congress whose states would directly benefit from Kuwaiti investment and seek their support. KIA Managing Director Saad said the KIA does not invest directly in businesses but prefers to invest in private equity funds like Carlyle Group and Morgan Stanley. The KIA's only real direct investment in the U.S., he said, is in real estate, which was complicated by a 1998 tax law revision.

¶9. (U) This cable was cleared by Deputy Secretary Kimmitt.

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